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MONTHLY PROJECTIONS
June 1985

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SLOW GROWTH REAPPEARS IN THIRD QUARTER

In June, manufacturing employment fell even more sharply than in the previous five months while service jobs grew at a slower rate than in the past year. Construction activity took a breather from its booming first half performance. If the Federal Reserve had not eased reserve restraints in May and June, this unbalanced growth probably would have tilted the economy into minimal gains during the second half of 1985. However, rapid growth in the monetary base during June and a surprisingly strong gain in money growth despite weak loan demand momentarily reduced interest rates. Reduced interest rates, in turn, diminished foreign investor enthusiasm for the dollar. As a result, the dollar is now falling significantly in value, gradually increasing the competitiveness of American manufacturing. A continuation of this downward trend in the dollar's value should ease the erosion in manufacturing activity by early 1986.

Of course, the Federal Reserve's move also sustained a construction expansion that no longer is justified by economic conditions. Strong construction spending is expected through the summer months and into the fall. However, a correction from those lofty construction levels should develop before year's end independent of any further Federal Reserve easing. Indeed, whether a recession can be avoided in 1986 will depend upon whether the correction in construction can be offset by moderate improvement in manufacturing.

Unfortunately, consumers have little capacity to sustain high purchases of consumer durables. While a further spurt in housing activity may encourage non-auto durable sales into the early months of 1986, automobile sales already have passed their peak. (Sales are now slightly more than one million units per year above replacement demand.)

The consumer still might provide sufficient support to ease the economy's adjustments as construction slows and manufacturing gradually improves if real purchasing power can be maintained. Certainly, as manufacturing becomes more competitive with foreign producers, wage restraints will gradually be lifted. However, the hourly earnings index is only 3.1 percent above previous year

levels and has remained in the vicinity of three percent year-over-year gains for the past 12 months. While wages in the service sector are intensifying, no dramatic surge in wage pressures is expected. At the same time, the manufacturing workweek has worked its way back up to 40.4 hours. Possibilities for increasing overtime from these levels is not significant. Thus, wage income in nominal terms should show minimal acceleration in the next year.

Non-wage income received by households should grow more slowly, as interest income declines to reflect a decrease in short-term interest rates. While tax burdens momentarily are being eased as the delayed refund checks are being disbursed, this source of increased consumer purchasing power will soon end. Thus, disposable income before inflation will be growing slightly more slowly than in the previous year. With a consumer sector that already has installment debt at record levels relative to disposable income, substantial increases in consumption at the expense of savings is not likely.

Of course, lower inflation rates could provide continuing consumer support for the economy. Modest inflation is anticipated through the summer months as oil prices fall further and food prices remain well-subdued. By the end of the year, however, meat liquidation should come to an end. During the subsequent period of herd rebuilding, food prices should accelerate, probably to the vicinity of 5% in 1985 following only a 2% rate of increase in 1984. In addition, the dollar's decline will gradually reduce competitive pressures from abroad that have been restraining commodity prices in the United States. Thus, inflationary pressures should gradually intensify. This will lower the growth of real disposable income at a time when the consumer is not able to substantially add to debt. In short, the consumer probably cannot provide sufficient support to prevent at least a mild downturn in 1986 when construction contracts.

In the meantime, a slightly more favorable condition for economic activity should develop in the third and fourth quarters. The inventory correction that led to a 0.4% decline in manufacturing inventories during May should diminish. This gradual increase in activity already has begun to raise commercial paper holdings and the growth of the money stock. Soon, the Federal Reserve must decide whether to continue current accommodation. While no significant Federal Reserve tightening is anticipated, some upward movement in short-term interest rates is anticipated in the next six months. This probably will increase long-term interest rates slightly. Rates are expected to resume their downward direction in 1986 as the construction boom comes to an end.

Equity values currently are responding to reduced interest charges and prospects for improved economic conditions in the latter half of 1985. Concern about any inflationary fallout from the dollar's weakness has not yet materialized. As long as the equity markets accentuate the positive from current conditions, higher values can be anticipated. Indeed, the market may approach 1400 on the Dow Jones during the summer months. However, the inflationary fallout from a declining dollar eventually will lead to higher interest rates and a reduced consumer capacity to support the economy. When those increasing inflationary pressures become apparent during the fall, equity values should fall significantly.

Quarterly Profile of GNP

	1985-1	1985-2	1985-3	1985-4	1986-1	1986-2
Real:	0.3	2.2	3.7	4.0	2.2	1.7
Price:	5.4	3.2	3.6	3.6	4.8	4.7
Nominal:	5.8	5.5	7.4	7.7	7.1	6.5

Monthly Statistical Highlights for June 1985

Personal income +0.6%; savings rate 5.1%; personal consumption +0.5%; retail sales -0.3%; housing starts +5.1%; housing permits -6.4%; construction expenditures -0.1%; business inventories +0.1%; orders for durable goods -1.5%; orders for nondefense capital goods +1.3%; industrial production +0.1%; CPI +0.3%; PPI +0.2%; consumption deflator +0.4%; leading indicators +0.4%; real GNP +5.1%; M1 +12.2%; M2 +9.9%.

Monthly Statistical Highlights for July 1985

Payroll employment +175,000; index of hours worked +0.2%; household employment +693,000; civilian unemployment rate 7.2%; personal income +0.5%; savings rate 4.7%; personal consumption +0.7%; retail sales +0.8%; auto sales 10.7 million; housing starts +7.3%; housing permits +1.3%; construction expenditures -0.1%; business inventories +0.1%; orders for durable goods +2.2%; orders for nondefense capital goods +2.9%; industrial production +0.3%; CPI +0.2%; PPI +0.2%; consumption deflator +0.2%; leading indicators +0.4%; real GNP +1.4%; M1 +9.8%; M2 +10.0%.

COMMENTARY

Employment - Although payroll employment increased only 80,000 in June, with a 56,000 reduction in payrolls of goods producing industries, the index of hours worked continued to expand. During the second quarter, this index increased at an annual rate of 3.2%. With estimates of economic activity falling below that, it appears that a second consecutive quarter of negative productivity gains developed. This excess labor will prevent any rapid increases in payroll employment during the third quarter. However, about 40,000 of the decline in payrolls during June represented a slip in local government payrolls and probably reflects seasonal problems associated with the school year. Also, the decline in employment for general retail merchandising that developed in June should not persist through the summer. On the other hand, a sharp dip in household employment also reflects problems with seasonal adjustments during June. Although payrolls have increased by 1.4 million in the first six months of 1985, household employment is unchanged. A sharp rebound in household employment should be expected in the summer months. This could temporarily reduce the unemployment rate.

Personal Income & Outlays - Personal income fell sharply in May as agricultural support programs which bolstered income in April were no longer available. In addition, an April increase in post office payrolls did not persist through May. On the other hand, unemployment compensation continued to dip, although initial claims in June suggest that such compensation may rise in that month. Interest income continues to grow at an especially sluggish pace that should persist well into the summer months.

Tax refunds should continue to prop up disposable income in June but not by the same magnitude as in May. By July, tax payments should regain a normal pattern. As consumers did not replenish their savings as much when the refunds began to flow as they drew them down when the refunds were delayed, normal savings currently has fallen below 5%. At these levels and with the significant amount of consumer debt outstanding, it is unlikely that the consumer will provide independent support for the economy.

Retail sales in nondurable goods did not correspond to nondurables outlays in May. As a result, a significant upward revision in May retail sales is possible. However, auto sales fell sharply late in June, leading to a significant dip in sales for the month. Some sales improvement is expected in July because of increased availability of popular models. This will cause retail sales and outlays to rebound in that month. However, outlays should remain surprisingly sluggish in June with a significant slowing in durables spending. Indeed, except for a surge in services spending, which is aided by utility consumption caused by exceptionally hot weather, June would have shown weakness. It should be noted, however, that the upward revision in retail activity for March and April leads to higher estimates for personal consumption spending during the second quarter than had been contained in our May forecast.

Construction - Housing starts during May were surprisingly weak as both single-family and multi-family activity fell sharply from the previous month. However, housing permits remain strong with multi-family permits able to support more than 800,000 multi-family starts. While permits are expected to slow in June, starts should rebound toward levels obtained in April.

Construction spending was revised sharply upward, especially during the first quarter. Because of the May sluggishness in housing, construction spending is expected to show little change in June. By September, however, the construction boom will again surface. A peak is expected in construction by the end of the year.

Business Activity - Declines in manufacturing inventories during April and May indicate that manufacturers do not have sufficient orders to maintain even current levels of activity. However, economic conditions should gradually improve to generate increased orders. As this develops, manufacturing production and inventories should pick up. In April, retail inventories were surprisingly strong and probably remained excessive in May as sales declined. Retailers are expecting to diminish their inventory holdings in June. Wholesalers, who maintained good inventory balance in April should be building up their stockpiles.

Prices - Declining oil prices probably will restrain inflationary pressures through the summer months. As mentioned above, the meat cycle should begin to generate increasing food inflation early in 1986. However, the dollar's decline, which was anticipated but not to the current extent, will begin to impart increasing inflationary pressures on commodity producing industries by the end of this year. As prices of precious metals rise, the consumer durables deflator could intensify even more than projected. However, further declines in energy prices will be sufficient to restrain price increases for nondurables and services into the early months of 1986.

Revisions in construction data have removed evidence of significant construction inflation. Although an anticipated surge in construction activity

later in 1985 should cause an acceleration in the construction deflator, construction inflation will not be as severe as originally anticipated. This is providing a restraining effect upon the estimated GNP deflator.

Miscellaneous - A declining dollar might lead to higher deficits on the merchandise trade account than currently projected. Importers who already have orders outstanding may need to pay more for their shipments. By 1986, however, the adverse price effect from a dollar devaluation should be completed.

A surprisingly strong estimate of real GNP for June is not easy to defend. However, the need to establish GNP estimates consistent with quarterly estimates indicates such a large increase for June. Of course, inventory reductions will not be as significant in June as in May. Our projections also suggest that trade balances will not be quite as negative in June as in May.

FINANCIAL MARKETS

Short-term interest rates continue to perform as expected during a period of inventory liquidation. Although rates fell more sharply than expected, this was the result of a greater reduction in inventories, especially at the manufacturing level, than expected. Once inventory liquidations are included in the analysis, short-term interest rates follow an expected pattern. If the inventory liquidation cycle is temporarily ending, some firming in short-term interest rates should be anticipated. This might explain why the Federal Reserve has had considerable difficulty restraining the federal funds rate in recent weeks. However, a sharp discrepancy between rates on federal funds and commercial paper suggests that conditions associated with Federal Reserve management of reserves rather than private credit market pressures is responsible for current interest rate patterns. Our projections suggest that short-term interest rates probably have reached their low point for the present time. Although no dramatic increase in rates is anticipated, an upward trend should develop through the remainder of this year. This trend should be strong enough to place modest upward pressures upon the prime rate by the fall.

Long-term interest rates are more difficult to gauge at the present time, as the yield-curve remains very steep. Although long-term rates have rallied significantly, the steepness in the yield-curve can continue to be flattened through further decreases in long-term rates. Indeed, less than proportional response to upward pressures on short-term rates is expected in the coming months. This suggests that upward interest rate movements on long-term instruments should be modest and short-lived. While investors in long-term debt instruments may be inclined to take profits following significant gains in the first half of this year, our analysis suggests that after-tax total returns during the next year will remain higher for long-term investors than for those who switch into short-term instruments.

Equity Markets - A rebound in economic activity during the third and fourth quarters should raise after-tax operating profits. Of course, the rebound also will create rising interest rate pressures. If these pressures remain as limited as currently expected, equity values should have no difficulty rising to record levels in the summer months. By the fall, however, prospects of declining profitability ahead should begin to create market uncertainty. Equity values then would be expected to fall significantly early in 1986. However, the declining dollar should enhance asset and commodity-based equities and also

improve the relative performance of multi-national corporations. High technology domestically produced corporations normally would perform poorly, although the end of inventory liquidations in the semi-conductor industry could provide some investment opportunities there. Cyclical stocks should continue to have difficulties and consumer-based equity values also should be under downward pressures when the market declines.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	96045	96045	114.6	114.6	106391	106391	7.4	7.4	162.8	162.8
February	96157	96591	114.2	115.1	106685	106685	7.3	7.3	163.8	164.0
March	96538	96910	115.0	115.7	107119	107119	7.3	7.3	164.4	164.4
April	96753	97120	115.3	115.6	107381	106945	7.3	7.3	164.8	164.8
May	96930	97386	115.6	116.2	107525	106960	7.2	7.3	165.0	165.0
June	97119	97466	115.8	116.5	107672	106370	7.2	7.3	165.4	165.4*
July	97342	97641*	116.1	116.7*	107913	107063*	7.1	7.2*	166.0	165.9
August	97559	97808	116.4	116.9	108126	107350	7.1	7.2	166.7	166.4
September	97773	98075	116.8	117.2	108408	107662	7.0	7.2	167.3	167.0
October	97992	98310	117.0	117.5	108623	107952	7.0	7.1	167.8	167.6
November	98169	98486	117.1	117.7	108820	108087	6.9	7.1	168.4	168.2
December	98334	98741	117.3	118.0	109015	108368	6.9	7.1	169.0	168.8
January 1986	98492	98908	117.4	118.2	109237	108580	6.9	7.1	169.8	169.4
February	98641	99080	117.5	118.4	109414	108802	6.8	7.1	170.7	170.0
March	98790	99172	117.6	118.5	109591	108935	6.9	7.2	171.5	170.5
April	98916	99264	117.8	118.6	109802	109069	6.9	7.2	172.0	171.0
May	99053	99356	118.0	118.7	109930	109239	6.9	7.2	172.4	171.6
June	99193	99360	118.1	118.7	110058	109331	7.0	7.4	172.8	172.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	3.127	3.129	1.873	1.873	151.2	150.9	2.671	2.672	2.520	2.521
February	3.140	3.146	1.881	1.881	106.4	110.3	2.650	2.656	2.543	2.545
March	3.156	3.156	1.895	1.895	105.5	94.6	2.637	2.637	2.531	2.543
April	3.175	3.189	1.906	1.904	152.1	157.6	2.711	2.724	2.559	2.567
May	3.189	3.172	1.917	1.909	165.4	182.5	2.743	2.769	2.578	2.586
June	3.203	3.190*	1.928	1.920*	172.9	140.6*	2.765	2.738*	2.592	2.598*
July	3.223	3.207	1.940	1.930	139.7	129.4	2.751	2.747	2.611	2.617
August	3.246	3.226	1.951	1.940	143.5	132.7	2.769	2.763	2.626	2.630
September	3.269	3.247	1.963	1.953	148.9	134.5	2.788	2.781	2.639	2.647
October	3.287	3.269	1.974	1.966	146.1	141.8	2.803	2.800	2.651	2.658
November	3.306	3.288	1.983	1.977	144.1	139.1	2.818	2.813	2.674	2.674
December	3.325	3.309	1.992	1.990	143.2	138.1	2.834	2.830	2.691	2.692
January 1986	3.339	3.322	2.004	2.001	143.6	136.6	2.852	2.840	2.708	2.703
February	3.359	3.341	2.017	2.012	142.5	137.0	2.866	2.856	2.724	2.719
March	3.378	3.359	2.030	2.021	142.4	140.2	2.881	2.871	2.739	2.731
April	3.392	3.378	2.037	2.030	134.9	145.2	2.892	2.887	2.757	2.741
May	3.410	3.397	2.046	2.040	135.5	145.8	2.908	2.902	2.773	2.756
June	3.428	3.414	2.055	2.048	135.2	144.4	2.924	2.916	2.789	2.773

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	2432.3	2432.6	331.7	331.7	875.2	875.2	1225.4	1225.7	1085.9	1086.0
February	2454.6	2455.8	337.9	338.0	882.3	879.4	1234.4	1238.3	1093.3	1093.2
March	2441.5	2451.1	329.6	334.7	876.3	877.1	1235.6	1239.3	1083.7	1088.2
April	2468.2	2474.5	336.2	338.5	885.7	893.6	1246.3	1242.4	1093.1	1098.0
May	2485.8	2492.8	340.1	341.2	890.2	900.1	1255.5	1251.5	1097.5	1102.9*
June	2499.2	2504.7*	340.4	334.7*	894.1	905.3*	1264.7	1264.7*	1099.5	1104.1
July	2517.3	2522.6	342.7	339.7	899.3	909.3	1275.3	1273.6	1104.1	1109.6
August	2530.3	2535.3	343.8	341.3	902.4	911.6	1284.1	1282.4	1106.9	1112.4
September	2542.7	2550.2	344.6	344.2	905.5	913.7	1292.6	1292.3	1108.9	1115.9
October	2559.4	2560.7	346.2	344.6	911.7	916.3	1301.5	1299.8	1112.3	1117.6
November	2575.2	2576.1	347.0	344.3	916.8	922.6	1311.4	1309.2	1114.8	1120.4
December	2591.0	2592.8	345.7	345.6	922.2	926.8	1323.1	1320.4	1117.3	1123.7
January 1986	2607.6	2603.0	348.4	344.6	926.8	929.4	1332.4	1329.0	1120.1	1124.3
February	2621.7	2618.3	349.5	346.7	930.9	933.3	1341.3	1338.3	1121.8	1126.8
March	2635.8	2628.8	350.6	343.9	935.0	938.0	1350.2	1346.9	1123.5	1127.3
April	2653.3	2638.0	352.7	342.6	940.2	939.8	1360.4	1355.6	1127.1	1127.1
May	2667.8	2652.5	353.1	342.3	945.2	945.8	1369.5	1364.4	1129.5	1128.9
June	2683.1	2667.6	352.0	343.7	950.1	950.2	1381.0	1373.7	1131.6	1131.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	110.97	110.97	16.00	16.00	11.2	11.2	70.35	70.35	24.62	24.62
February	112.74	112.10	16.27	16.12	10.6	10.6	71.42	71.02	25.04	24.95
March	110.54	111.85	16.27	16.27	10.6	10.6	70.23	71.09	24.04	24.49
April	112.42	114.58	16.40	16.48	11.0	11.1	71.29	72.02	24.73	26.08
May	113.26	113.68	16.48	16.33	10.7	11.2	71.65	72.04	25.13	25.30
June	113.61	113.38*	16.43	16.38*	10.8	10.5	71.97	72.54*	25.21	24.26*
July	114.32	114.31	16.51	16.50	11.0	10.7*	72.39	72.86	25.42	24.95
August	114.70	114.68	16.53	16.58	11.0	10.7	72.64	73.04	25.53	25.06
September	115.05	115.20	16.70	16.67	10.9	10.8	72.89	73.21	25.46	25.32
October	115.74	115.51	16.82	16.82	10.8	10.7	73.39	73.46	25.53	25.23
November	116.25	115.93	17.09	16.96	10.7	10.6	73.80	73.92	25.36	25.05
December	116.52	116.47	16.98	17.04	10.7	10.6	74.23	74.30	25.31	25.13
January 1986	117.22	116.56	17.15	17.11	10.7	10.5	74.60	74.51	25.47	24.94
February	117.69	117.12	17.24	17.20	10.6	10.6	74.93	74.82	25.52	25.10
March	118.15	117.16	17.39	17.25	10.6	10.4	75.26	75.20	25.50	24.71
April	118.83	117.18	17.49	17.30	10.6	10.3	75.68	75.38	25.66	24.50
May	119.28	117.59	17.60	17.38	10.5	10.2	76.08	75.82	25.60	24.39
June	119.54	118.14	17.44	17.45	10.5	10.2	76.48	76.21	25.62	24.48

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	1.849	1.849	1.060	1.060	1.676	1.635	316.2	341.0	189.5	205.2
February	1.631	1.647	1.123	1.135	1.636	1.624	320.6	334.3	192.3	201.1
March	1.895	1.889	1.149	1.168	1.814	1.741	326.5	333.7	195.5	200.9
April	1.938	1.927	1.178	1.159	1.793	1.704	329.4	338.3	196.7	202.9
May	1.973	1.663	1.203	1.042	1.818	1.755	336.2	343.5	199.9	205.7
June	1.957	1.747*	1.192	1.091*	1.778	1.642*	342.7	343.4*	202.8	205.3*
July	1.959	1.874	1.217	1.146	1.783	1.663	345.5	343.2	204.0	204.5
August	1.933	1.905	1.205	1.162	1.752	1.685	348.5	344.3	205.4	204.3
September	1.905	1.895	1.196	1.155	1.694	1.678	351.1	350.9	206.5	207.4
October	1.885	1.847	1.184	1.150	1.698	1.662	354.4	355.5	207.7	209.2
November	1.853	1.814	1.163	1.146	1.662	1.583	355.9	356.6	207.8	209.2
December	1.758	1.790	1.106	1.143	1.592	1.582	356.4	356.7	207.3	208.4
January 1986	1.723	1.748	1.082	1.127	1.564	1.547	355.0	356.3	205.9	207.4
February	1.721	1.718	1.093	1.132	1.585	1.556	353.6	355.8	204.6	206.5
March	1.691	1.699	1.083	1.125	1.526	1.504	352.2	354.5	203.5	205.3
April	1.656	1.689	1.064	1.117	1.448	1.483	351.9	354.1	202.7	204.6
May	1.608	1.671	1.045	1.108	1.392	1.462	352.1	354.8	202.2	204.5
June	1.553	1.657	1.021	1.096	1.377	1.435	352.4	354.5	201.8	204.0

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	130.5	128.4	57.3	57.4	128.5	155.3
February	131.7	130.4	56.4	57.8	132.5	146.0
March	133.9	128.4	57.8	59.1	134.8	146.2
April	135.2	134.5	58.7	59.3	135.5	144.5
May	136.8	135.7	59.9	61.0	139.5	146.8
June	138.3	135.0*	61.0	60.9*	143.4	147.5*
July	139.9	136.8	60.7	61.3	144.9	145.1
August	141.7	138.0	61.0	61.6	145.8	144.7
September	143.4	138.9	60.8	61.5	146.9	150.5
October	145.1	139.5	61.5	61.8	147.8	154.2
November	146.5	140.3	61.9	62.2	147.5	154.1
December	147.8	141.1	62.3	62.5	146.3	153.1
January 1986	149.0	142.6	62.0	62.0	144.0	151.7
February	150.0	143.3	61.8	62.2	141.8	150.3
March	151.1	144.0	61.9	62.5	139.2	148.0
April	152.2	144.6	62.1	62.9	137.6	146.6
May	153.1	145.3	62.4	63.3	136.6	146.2
June	153.9	145.8	62.8	63.6	135.7	145.1

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	284.7	285.8	104.99	105.45	23.14	23.63	25.64	25.25
February	285.7	286.1	103.69	102.47	29.50	29.49	26.31	26.33
March	286.3	286.2	104.63	99.54	27.42	27.21	26.82	27.77
April	286.9	286.0	105.92	99.73	27.59	25.41	27.03	27.26
May	288.1	285.0	106.38	102.94	27.68	25.62	27.26	26.95
June	290.0	285.3*	106.51	101.42*	27.42	25.95*	27.38	26.67*
July	292.3	286.1	106.89	103.66	28.13	26.71	27.56	26.63
August	293.2	286.8	106.27	104.47	28.24	27.04	27.78	26.76
September	293.6	287.9	105.42	105.23	28.02	27.23	28.01	26.95
October	294.9	289.3	104.28	105.02	27.43	27.46	28.23	27.13
November	296.5	290.2	106.07	104.75	27.92	27.31	28.36	27.21
December	297.5	291.2	107.46	103.88	28.26	27.05	28.45	27.20
January 1986	298.8	292.7	108.71	105.11	28.69	27.16	28.56	27.11
February	300.1	294.1	109.13	105.66	28.82	27.30	28.62	27.04
March	301.5	295.7	109.08	104.84	28.75	27.08	28.41	27.16
April	303.2	296.6	109.26	104.46	28.71	26.83	26.82	27.24
May	304.9	298.9	108.16	103.62	28.14	26.53	28.56	26.98
June	306.6	300.1	108.91	103.08	28.11	26.61	28.71	26.93

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	574.6	574.6	6.52	6.38	165.2	165.1	81.2	81.1
February	576.9	578.9	6.81	6.70	164.9	165.4	80.8	81.1
March	578.1	578.8	6.89	6.72	165.4	165.9	80.8	81.1
April	583.6	581.3	6.95	6.38	166.1	165.5	80.9	80.7
May	586.2	581.0*	7.06	6.50	166.7	165.3	81.0	80.3
June	588.4	581.6	7.18	6.71*	167.3	165.4*	81.1	80.1*
July	591.4	582.4	7.29	6.84	167.7	165.9	81.0	80.1
August	594.7	583.9	7.46	6.98	168.0	166.4	80.9	80.1
September	597.7	585.6	7.54	7.11	168.3	167.0	80.8	80.2
October	601.1	588.5	7.51	7.10	168.5	167.4	80.6	80.2
November	604.3	592.3	7.67	7.24	168.7	167.7	80.4	80.1
December	606.4	594.7	7.89	7.37	168.7	168.0	80.2	80.1
January 1986	610.2	597.3	7.95	7.50	168.7	168.2	80.0	80.0
February	612.3	601.4	8.03	7.59	168.9	168.5	79.9	79.9
March	614.7	605.2	8.10	7.63	169.4	168.7	79.9	79.8
April	617.9	608.9	8.23	7.68	170.3	168.8	80.1	79.6
May	621.3	613.4	8.34	7.84	171.5	168.6	80.4	79.3
June	626.1	618.1	8.46	7.83	172.6	168.4	80.7	79.0

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	316.6	316.6	292.4	292.1	323.2	323.2	228.23	228.25
February	317.7	317.7	292.1	292.1	322.5	322.5	228.96	228.96
March	319.0	319.2	292.7	292.7	322 6	322.6	229.84	230.00
April	320.2	320.4	293.7	293.6	324.0	323.8	230.53	230.21
May	321.1	321.1	294.3	294.2	325.4	325.4	231.42	230.77
June	322.1	322.3*	295.1	294.8*	326.5	325.4*	232.13	231.69
July	322.9	323.0	295.6	295.3	326.7	325.7	232.91	232.30
August	323.6	323.8	295.5	295.6	326.2	325.8	233.59	232.96
September	324.3	324.6	295.4	295.5	324.2	324.3	234.27	233.53
October	325.9	325.4	296.3	295.3	326.5	326.4	235.19	234.13
November	327.5	326.5	297.0	295.9	327.6	327.5	236.13	234.96
December	329.0	327.6	297.9	296.5	328.8	328.6	237.06	235.86
January 1986	330.3	328.8	298.9	297.2	329.6	329.6	237.89	236.82
February	331.5	329.9	299.8	297.8	330.2	330.4	238.65	237.72
March	332.8	331.2	300.8	298.5	330.9	331.1	239.40	238.68
April	334.4	332.5	301.9	299.2	332.4	332.5	240.21	239.55
May	336.0	333.9	303.0	300.0	333.9	333.8	241.07	240.56
June	337.5	335.1	304.1	300.8	335.3	334.9	241.87	241.33

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	224.0	224.0	178.1	178.1	220.0	220.0	244.2	244.2	166.9	166.2
February	224.5	224.6	179.4	179.6	219.9	219.7	245.1	245.3	166.7	166.2
March	225.1	225.3	179.8	179.5	220.1	220.5	245.4	246.0	167.0	166.2
April	225.8	225.4	180.2	179.2	220.8	221.0	246.5	246.2	167.5	166.7
May	226.5	226.0*	180.2	179.7*	221.4	221.5*	247.7	247.0*	168.2	167.0
June	227.3	226.8	180.3	179.8	222.0	222.1	248.8	247.8	169.0	167.3*
July	228.0	227.3	180.4	180.1	222.5	222.5	249.9	248.6	169.4	167.8
August	228.6	227.9	180.7	180.3	222.8	222.8	250.9	249.5	169.7	168.5
September	229.3	228.5	181.0	180.6	223.2	223.3	252.0	250.4	170.0	169.2
October	230.1	229.1	181.4	180.5	224.2	223.7	253.1	251.4	170.6	169.9
November	231.0	229.9	181.4	180.8	225.0	224.2	254.2	252.5	171.3	170.5
December	231.9	230.7	181.2	181.2	225.9	224.8	255.2	253.6	171.9	171.2
January 1986	232.8	231.5	181.6	181.6	226.5	225.3	256.4	254.6	172.4	171.8
February	233.7	232.4	182.2	182.0	227.3	225.9	257.6	255.8	172.8	172.3
March	234.6	233.2	182.7	182.3	228.0	226.5	258.9	256.8	173.1	172.7
April	235.4	234.1	183.0	182.6	228.6	227.1	260.0	257.9	173.6	173.1
May	236.2	235.0	183.2	183.0	229.3	227.9	261.1	259.0	174.1	173.5
June	237.1	235.7	183.4	183.3	230.0	228.6	262.2	259.9	174.6	173.8

Fore. = May Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	-10.29	-10.29	166.4	166.3	3814	3808	1671	1668	2.3	1.0
February	-11.45	-11.45	167.5	167.7	3814	3805	1666	1662	0.8	0.1
March	-11.50	-11.05	168.2	167.6	3832	3819	1667	1660	-0.3	-2.8
April	-11.15	-11.85	168.5	166.6	3869	3837	1678	1667	1.7	-2.6
May	-10.81	-12.67	169.0	167.8	3903	3858	1687	1672	6.8	-0.4
June	-10.52	-12.16*	168.8	168.4*	3932	3890	1694	1679	4.5	1.6
July	-10.68	-12.38	169.0	169.1	3956	3906	1699	1681	2.6	3.1
August	-11.08	-12.17	168.4	169.5	3977	3930	1703	1687	2.3	3.5
September	-11.53	-11.88	168.0	169.1	3999	3960	1707	1696	2.0	2.0
October	-11.69	-11.96	167.7	169.3	4022	3982	1710	1701	5.3	1.6
November	-11.24	-11.67	168.2	169.0	4045	4007	1713	1705	8.8	0.4
December	-11.13	-11.38	168.6	168.7	4064	4028	1714	1708	8.9	1.8
January 1986	-11.25	-11.67	169.1	169.5	4083	4052	1716	1711	10.6	3.7
February	-11.50	-11.75	169.5	169.8	4102	4076	1719	1715	12.9	5.2
March	-11.11	-11.26	169.5	169.1	4122	4096	1722	1716	13.5	6.6
April	-11.26	-11.05	169.2	168.5	4159	4116	1731	1718	14.2	6.9
May	-11.05	-11.22	168.8	167.9	4185	4140	1736	1721	14.9	7.5
June	-10.98	-11.07	168.5	167.3	4211	4164	1741	1725	13.8	8.2

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	218.4	218.2	563.0	562.7	2400.4	2398.9	8.35	8.35	8.00	8.00
February	219.3	219.2	569.2	569.4	2420.6	2421.0	8.50	8.50	8.39	8.39
March	222.0	221.7	571.9	572.1	2427.6	2429.2	8.58	8.58	8.90	8.90
April	223.1	221.9	574.6	574.9	2435.7	2427.5	8.33	8.27	8.46	8.23
May	224.0	223.7	577.9	581.6	2457.3	2444.5	8.45	7.97	8.27	7.65
June	224.9	227.4	581.3	587.2	2479.5	2463.8	8.43	7.53	8.25	7.09
July	226.2	227.7*	584.7	591.8*	2492.6	2483.5*	8.72	7.71*	8.72	7.16*
August	227.4	228.7	587.4	593.5	2509.2	2495.9	9.25	7.72	9.04	7.28
September	228.7	229.8	589.9	595.9	2526.6	2513.4	9.83	8.26	9.23	7.53
October	230.0	230.9	592.3	598.0	2543.1	2531.0	9.65	8.37	9.29	7.66
November	231.1	232.2	595.5	600.9	2559.7	2551.2	9.68	8.43	9.25	7.71
December	232.2	233.3	598.8	603.3	2575.8	2569.1	9.52	8.46	9.22	7.74
January 1986	233.4	234.1	601.2	605.1	2592.7	2584.5	9.29	8.32	8.95	7.61
February	234.5	235.3	605.7	608.3	2610.6	2602.6	9.10	8.21	8.72	7.42
March	235.6	236.0	609.9	610.1	2628.8	2618.2	9.06	8.07	8.61	7.31
April	237.0	237.2	613.8	613.6	2647.9	2639.1	9.21	8.15	8.85	7.38
May	238.8	238.1	615.7	616.0	2664.4	2657.6	9.35	7.78	8.89	7.26
June	240.3	239.3	617.5	619.3	2681.1	2676.2	9.43	7.73	8.95	7.24

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	12.08	12.08	9.51	9.51	8.03	8.03	8.14	8.14	10.62	10.62
February	12.13	12.13	9.53	9.65	8.54	8.54	8.69	8.69	10.50	10.50
March	11.96	12.56	9.69	9.77	8.90	8.90	9.07	9.07	10.50	10.50
April	11.92	12.23	9.53	9.42	8.42	8.37	8.63	8.49	10.50	10.50
May	12.15	11.72	9.72	8.93	8.36	7.83	8.49	7.92	10.50	10.31
June	12.37	10.94	9.92	8.59*	8.38	7.35	8.56	7.44	10.50	9.78
July	12.48	10.78*	10.05	8.50	8.81	7.52*	8.96	7.69*	10.86	9.50*
August	12.60	10.86	10.14	8.58	9.32	7.68	9.47	7.85	11.27	9.50
September	12.68	11.07	10.25	8.77	9.85	8.03	9.98	8.19	11.50	9.76
October	12.72	11.16	10.21	8.87	9.62	8.24	7.96	8.42	11.50	10.00
November	12.70	11.08	10.16	8.81	9.60	8.35	9.75	8.53	11.50	10.00
December	12.68	11.26	10.09	8.91	9.47	8.22	9.59	8.39	11.50	10.00
January 1986	12.49	11.07	9.84	8.77	9.15	8.06	9.32	8.27	11.50	10.00
February	12.42	10.98	9.70	8.73	9.10	8.15	9.26	8.38	11.23	10.00
March	12.36	10.96	9.59	8.69	9.03	8.05	9.20	8.26	11.00	10.00
April	12.47	10.88	9.76	8.61	9.18	8.19	9.35	8.41	11.00	10.00
May	12.51	10.76	9.82	8.50	9.36	7.88	9.54	8.11	11.00	10.00
June	12.55	10.69	9.89	8.39	9.45	7.81	9.68	8.06	10.00	10.00

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C.E. = Current Expectations
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MONTHLY PROJECTIONS
JULY 1985

Dr. Donald Ratajczak, Director

For Release: July 24, 1985

INVENTORY GROWS AND CONSUMPTION SLOWS IN MODEST REBOUND

Surprising inventory liquidations during May, with projections of continuing moderate liquidations in June, accounted for much of the sluggishness in economic activity during the second quarter. Final demand increased 5.1%. These inventory liquidations were especially significant at the retail level, although manufacturing inventories also declined. Inventories now are in a significant position to add to economic growth during the third quarter.

However, the consumer may no longer be able to sustain substantial expansion in consumption. In June, the savings rate fell to a surprisingly low 3.9% despite more than normal refunds that raised disposable income $2.4 billion above normal rates for June. Those analysts who claim that consumption did not rebound strongly in response to tax refunds simply are not reading the conditions correctly. In fact, consumer growth did not accelerate in the second quarter because inventory liquidations led to restricted growth of wage income. In addition, declining interest rates during the second quarter caused a significant slowing in property income. Also, unemployment compensation continued to fall as some long-term unemployed lost their benefit eligibility.

Some analysts also claim that savings rates are unusually low because provisions have not been made for the Keough and 401(k) plans. In fact, these savings programs do not restrict the growth of wage income as reported on the E-202 forms which are used to determine Social Security and unemployment compensation. Therefore, the savings programs are not being as grossly understated as some people believe. At the same time, consumer installment debt has risen to more than 18% of disposable income. Although households appear to have sufficient assets to support higher debt ratios than historically, consumer debt is growing 2.5 times as rapidly as consumer income. This suggests that some weakness will develop in purchases of consumer durables in the second half of 1985.

Housing showed less strength in the latter part of spring than was suggested by permits. Nearly a 150,000 unit gap exists between permits and starts for multi-family units. Perhaps, builders are continuing to receive permits but are delaying starts until they receive a clearer reading from Washington on tax changes. In recent weeks, the inability of Congress to do very much has reduced the possibility that a comprehensive tax package will be enacted before the 1986 congressional elections. As tax worries diminish, builders will return to using economic conditions to determine the level of their activity. At the present time, vacancy rates are high for most multi-family units. Thus, building activity probably will be slowing for multi-family units. Declining mortgage rates should encourage single-family activity to increase. Nevertheless, housing activity is expected to trend downward by the end of this year.

A rebound in orders for nondefense capital goods suggests that fixed investment will be stronger during the second half of 1985 than originally projected. Anticipations surveys show that capital spending plans are being reduced for 1986. Thus, orders are expected to begin falling by the end of this year.

A declining dollar appears to have had little noticeable effect upon inflationary conditions for the next year. Although prices of precious metals are expected to rise, causing the jewelry component of consumer durables to grow more rapidly than originally projected, few other signs of the dollar's impact upon inflation can be uncovered. Oil prices are expected to fall by $2 per barrel within a month. No further declines in oil prices are then expected in the next year.

The weak dollar will raise the nominal trade deficit, as importers need more dollars to purchase foreign currencies necessary to pay for their second half purchases. This heightened trade deficit is expected to persist into the early months of 1986. We expect the dollar to fall further, but not until the U. S. economy weakens again early in 1986.

One anomaly that cannot easily be explained is continued rapid growth in the money stock. The money multiplier is now well-above the 2.60 rate that normally is considered historically high. Part of this rapid growth is being generated by a transfer of funds between M2 and M1. With interest rates at levels that sharply reduce the relative attractiveness between longer term certificates and more liquid interest bearing checking accounts, checkable deposits have become more attractive. However, a recent acceleration in currency demand suggests that other forces also are at work. Our estimates do show a significant rebound in monthly GNP. Thus, intensifying transactions demand cannot explain the strength in the money stock.

Also, strong money growth early in the year is not expected to be converted into rapid nominal GNP growth later. Rather, these portfolio and unexplained shifts are expected to persist into 1986. Thus, the volicity of money is expected to show surprisingly sluggish performance following two years of near normal velocity gains.

Also sluggish is productivity gains. During the first half of 1984, productivity in the private economy has declined at a 1.5% annual rate. Part of this is the result of greater weakness than anticipated by personnel departments. This would suggest that employment gains will be relatively weak during

the latter half of 1985. However, some of the poor productivity performance is the result of composition shifts between manufacturing and service jobs.

The bond market probably has reached its highest prices for the year. Moderate acceleration in economic activity coupled with a modest deceleration in Federal Reserve accommodation should combine to cause a slight upward drift in all rates of interest. Continuation of a steep yield curve will prevent the long-term rate from rising as rapidly as short-term interest rates. Nevertheless, some increases in all rates should develop in the next six months.

Increasing economic activity will lead to higher earnings on equity ownership during the second half of 1985. However, rising interest rates will blunt the favorable impact that improving profits otherwise would generate in equity values. Increased earnings anticipations may be more than sufficient to offset rising interest rate problems during the summer months. As a result, the Dow Jones is expected to challenge 1400. However, corporate profitability should begin to erode early in 1986. At that point, equity values should decline significantly.

Quarterly Profile of GNP

	1985-1	1985-2	1985-3	1985-4	1986-1	1986-2
Real:	0.3	1.7	3.0	3.5	2.4	1.3
Price:	5.4	2.8	3.2	4.1	4.6	4.6
Nominal:	5.6	4.6	6.3	7.7	7.1	6.0

Monthly Statistical Highlights for July 1985

Payroll employment +173,000; index of hours worked +0.2%; household employment +693,000; civilian unemployment rate 7.3%; personal income +0.5%; savings rate 3.9%; personal consumption +0.5%; retail sales +0.3%; auto sales 10.5 million; housing starts +5.6%; housing permits -2.2%; construction expenditures -0.2%; business inventory +0.4%; orders for durable goods -1.7%; orders for nondefense capital goods -2.0%; industrial production +0.2%; CPI +0.2%; PPI +0.1%; consumption deflator +0.3%; leading indicators +0.4%; real GNP +3.6%; M1 +13.1%; M2 +8.9%.

Monthly Statistical Highlights for August 1985

Payroll employment +185,000; index of hours worked +0.2%; household employment +319,000; civilian unemployment rate 7.2%; personal income +0.5%; savings rate 3.9%; personal consumption +0.6%; retail sales +0.6%; auto sales 10.7 million; housing starts +2.5%; housing permits +1.6%; construction expenditures +0.2%; business inventory +0.4%; orders for durable goods +0.7%; orders for nondefense capital goods +2.1%; industrial production +0.2%; CPI +0.3%; PPI +0.1%; consumption deflator +0.3%; leading indicators +0.2%; real GNP +2.2%; M1 +3.1%; M2 +8.1%.

COMMENTARY

Personal Income and Outlays - As expected, personal income rebounded in June in the absence of any further adjustments to farm subsidies or any change in government payrolls. Wage and salary gains were slightly larger than projected, but significant slowing in property income and continued weakness in unemployment compensation caused total personal income to grow 0.5%. More significantly, less than $3 billion of refund distortions occurred in June. Thus, with tax payments almost back to normal, personal savings fell to 3.9%. This unusually large low rate of savings should generate some constraint upon consumer activity in the months ahead. Indeed, our projections of a continuation of savings at such low rates probably will not materialize. However, our consumer analysis cannot uncover where consumer spending will be weak. Automobile sales have been reduced from previous projections. Sales of non-auto durables also have been constrained, although a surprising drop in sales during June was responsible for most of that month's weakness. Continued strong gains in household durable shipments and orders suggest that the June decline was an abberation.

Certainly, June declines in general merchandise and gasoline station sales are not expected to persist, at least until energy prices fall again early in the fall. Therefore, some acceleration in nondurable sales should be anticipated. Rapid gains in purchases of services during May and June are not expected to persist. Nevertheless, above forecasted values of service purchases appear to be likely for the next year.

Perhaps, a rebound in property income as a result of a firming of interest rates could resolve this dilemma of unusually low rates of savings. Some analysts have maintained that the 401(k) program is distorting wage income and, therefore, savings. However, while those programs diminish reported wage income for income tax purposes, they do not reduce wage income reports for Social Security and unemployment compensation. It is these reports that are used to generate the personal income estimates. Certainly, the unusually low savings rate could be the result of data distortions. However, sources of these distortions are not apparent.

Construction - Housing starts did not rebound as much as anticipated in June. Permits continued to outstrip starts, with more than a 150,000 unit gap between permits and starts for multi-family units. Builder hesitancy as a result of possible tax changes may account for this gap. Certainly, permits should continue to fall until a more realistic relationship between permits and starts reappears.

The decline in single-family starts also was surprising, as housing affordability definitely is rising. Buyers may me moving to the sidelines to see how far interest rates will fall. If so, evidence that interest rates probably will fall very little should bring those buyers off the sidelines fairly soon. In the absence of any easy explanation for the weakness in single-family starts, our projections have lowered those starts over the next year. This is a source of potential error.

Business Activity - The most significant report on business activity was the sharp decline in retail inventories during May. With retail inventories declining 0.9%, manufacturing inventories falling 0.4%, and wholesale inventories only rising 0.1%, inventory liquidation significantly weakened economic

activity during May and in the second quarter. A rebound is expected in these inventories, as sales now are beginning to outstrip inventories.

A second significant business activity report was the sharp rebound in non-defense capital goods orders reported for June. After falling significantly below forecasted values in April and May, orders have now snapped back to previous anticipations. They are not expected to hold those levels. Some weakness in orders is anticipated next month. However, both orders and shipments have been revised upward in the next year as a result of the surprisingly strong June performance.

Also revised up has been defense shipments as a result of a surge in orders and the sharp rebound in shipments during June. Shipments still are expected to fall short of previously forecasted values, however,

The industrial production index was revised backward to 1967 and rebenched to 1977=100. Also, a reported decline in industrial production during April was reversed to a significant increase. Activity grew 0.1% in June as declines in utilities and mining partially offset 0.3% gains in consumer goods and business equipment. Defense and space activity increased 1.0%. A continuation of reasonably rapid growth for business equipment and consumer goods is expected through the summer months. If utility consumption rebounds, industrial production could grow more strongly than currently expected.

Prices - A sharp decline in the dollar's value in the past two weeks has not impacted any of our sensitive price indices with the exception of nonferrous metals. Even in the nonferrous metals, the pickup of inflationary pressures is surprisingly modest. Nevertheless, the dollar's decline from previous peaks probably will permit slightly more commodity inflation than had originally been projected. Fortunately, declining oil prices will offset this influence. For that reason, inflation is expected to remain subdued into 1986. At that time, however, rising meat prices should generate increasing food inflation. Continuing inflation in the service sector and the absence of deflation in energy will moderately accelerate inflationary pressures.

FINANCIAL MARKETS

Interest rates always decline during periods of inventory liquidations. If this inventory liquidation has come to an end, then the current firming in short-term interest rates should not be surprising. What is surprising, however, is the current absence of any realistic relationship between money growth and the expansion of economic activity or the change in interest rates. As mentioned above, portfolio adjustments may account for some of this rapid money growth. However, even velocity according to M2 is performing below normal. It would be necessary to demonstrate portfolio adjustments between M3 and other liquid assets and the two more commonly used monetary aggregates to explain this relationship.

Nevertheless, the Federal Reserve probably will be less accommodative in the second half of 1985 even as economic activity accelerates slightly. This should put some upward pressures upon short-term interest rates. Long-term interest rates also will increase as a result of modestly rising inflationary pressures.

According to our analysis by sector, consumer savings probably cannot fall further. Although housing activity may momentarily slow in the summer months, it will rebound again in the fall. Thus, the household sector should increase its net supply of credit in the summer and in the fall. The corporate sector will experience improving profitability but will also experience rising need for funds as a result of the reversalof inventory liquidations. Thus, corporate net borrowings are expected to rise both in the summer and fall. Government borrowings are expected to rise significantly during the second half of 1985. Some restraints upon government borrowings is possible early in 1986. With the dollar under attack, net foreign investment is expected to be less available at prevailing rates of interest. When all these forces are put together, interest rate pressures are building modestly during the third quarter and should be expected to intensify during the fourth quarter. Those pressures should remain undiminished early in 1986 before falling significantly in the latter part of that year.

This would suggest that interest rates could rise more sharply than currently projected during the next six months. Rates then may remain high early in 1986 before declining significantly later in that year.

Equity Markets - Our stock market formula suggests that equity values should rise significantly through the summer months. While interest rates are beginning to rise, significant gains in returns to equity should more than offset that influence. Equity gains should persist through the fourth quarter, but become more difficult by the middle of 1986. With interest rates rising through the fourth quarter and remaining high into 1986, equity values should trend downward. While the stock market probably will peak in the summer months, this analysis would not lead to any dramatic fall in equity values during 1986.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	96045	96045	114.6	114.6	106391	106391	7.4	7.4	162.8	162.8
February	96157	96591	114.2	115.1	106685	106685	7.3	7.3	163.8	164.0
March	96538	96910	115.0	115.7	107119	107119	7.3	7.3	164.4	164.4
April	96753	97120	115.3	115.6	107381	106945	7.3	7.3	164.8	164.8
May	96930	97386	115.6	116.2	107525	106960	7.2	7.3	165.0	165.0
June	97119	97466	115.8	116.5	107672	106370	7.2	7.3	165.4	165.4
July	97342	97639*	116.1	116.7*	107913	107063*	7.1	7.3*	166.0	166.0*
August	97559	97824	116.4	116.9	108126	107382	7.1	7.2	166.7	166.5
September	97773	98008	116.8	117.1	108408	107612	7.0	7.2	167.3	167.1
October	97992	98192	117.0	117.3	108623	107815	7.0	7.2	167.8	167.7
November	98169	98368	117.1	117.5	108820	108024	6.9	7.2	168.4	168.3
December	98334	98552	117.3	117.7	109015	108263	6.9	7.2	169.0	169.0
January 1986	98492	98727	117.4	117.9	109237	108469	6.9	7.2	169.8	169.7
February	98641	98895	117.5	118.1	109414	108669	6.8	7.2	170.7	170.3
March	98790	99070	117.6	118.3	109591	108922	6.9	7.2	171.5	170.9
April	98916	99255	117.8	118.5	109802	109078	6.9	7.3	172.0	171.5
May	99053	99430	118.0	118.7	109930	109316	6.9	7.3	172.4	172.2
June	99193	99539	118.1	118.8	110058	109526	7.0	7.3	172.8	172.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	3.127	3.129	1.873	1.873	151.2	150.9	2.671	2.672	2.520	2.521
February	3.140	3.146	1.881	1.881	106.4	110.3	2.650	2.656	2.543	2.545
March	3.156	3.156	1.895	1.895	105.5	94.6	2.637	2.637	2.531	2.543
April	3.175	3.188	1.906	1.903	152.1	148.0	2.711	2.722	2.559	2.574
May	3.189	3.170	1.917	1.909	165.4	180.6	2.743	2.771	2.578	2.590
June	3.203	3.187	1.928	1.922	172.9	105.5	2.765	2.711	2.592	2.606
July	3.223	3.202*	1.940	1.932*	139.7	106.9*	2.751	2.725*	2.611	2.618*
August	3.246	3.218	1.951	1.941	143.5	104.1	2.769	2.739	2.626	2.635
September	3.269	3.236	1.963	1.951	148.9	107.1	2.788	2.754	2.639	2.647
October	3.287	3.254	1.974	1.962	146.1	110.7	2.803	2.770	2.651	2.659
November	3.306	3.273	1.983	1.973	144.1	108.0	2.818	2.786	2.674	2.678
December	3.325	3.293	1.992	1.985	143.2	107.0	2.834	2.804	2.691	2.697
January 1986	3.339	3.309	2.004	1.999	143.6	106.7	2.852	2.817	2.708	2.710
February	3.359	3.327	2.017	2.009	142.5	108.6	2.866	2.832	2.724	2.723
March	3.378	3.344	2.030	2.019	142.4	108.6	2.881	2.846	2.739	2.737
April	3.392	3.361	2.037	2.030	134.9	106.6	2.892	2.860	2.757	2.753
May	3.410	3.380	2.046	2.042	135.5	109.6	2.908	2.876	2.773	2.766
June	3.428	3.395	2.055	2.051	135.2	104.5	2.924	2.887	2.789	2.783

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	2432.3	2432.6	331.7	331.7	875.2	875.2	1225.4	1225.7	1085.9	1086.0
February	2454.6	2455.8	337.9	338.0	882.3	879.4	1234.4	1238.3	1093.3	1093.2
March	2441.5	2451.1	329.6	334.7	876.3	877.1	1235.6	1239.3	1083.7	1088.2
April	2468.2	2481.4	336.2	341.0	885.7	894.1	1246.3	1246.3	1093.1	1100.0
May	2485.8	2496.5	340.1	341.9	890.2	893.4	1255.5	1261.2	1097.5	1103.4
June	2499.2	2510.4	340.4	339.3	894.1	896.5	1264.7	1274.6	1099.5	1106.2*
July	2517.3	2521.7*	342.7	340.2*	899.3	899.8*	1275.3	1281.7*	1104.1	1108.1
August	2530.3	2537.3	343.8	343.4	902.4	903.7	1284.1	1290.2	1106.9	1111.7
September	2542.7	2548.0	344.6	342.7	905.5	905.4	1292.6	1299.9	1108.9	1113.4
October	2559.4	2559.2	346.2	341.1	911.7	908.4	1301.5	1309.7	1112.3	1113.8
November	2575.2	2576.9	347.0	344.4	916.8	913.7	1311.4	1318.8	1114.8	1118.3
December	2591.0	2594.9	345.7	347.2	922.2	919.2	1323.1	1328.5	1117.3	1122.6
January 1986	2607.6	2607.1	348.4	346.6	926.8	922.8	1332.4	1337.7	1120.1	1123.6
February	2621.7	2619.2	349.5	344.3	930.9	927.0	1341.3	1347.9	1121.8	1124.3
March	2635.8	2632.2	350.6	344.2	935.0	931.2	1350.2	1356.8	1123.5	1125.7
April	2653.3	2647.1	352.7	345.7	940.2	934.5	1360.4	1366.9	1127.1	1128.0
May	2667.8	2659.1	353.1	344.0	945.2	938.6	1369.5	1376.5	1129.5	1128.6
June	2683.1	2674.1	352.0	345.8	950.1	942.1	1381.0	1386.2	1131.6	1130.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	110.97	110.97	16.00	16.00	11.2	11.2	70.35	70.35	24.62	24.62
February	112.74	112.10	16.27	16.12	10.6	10.6	71.42	71.02	25.04	24.95
March	110.54	111.85	16.27	16.27	10.6	10.6	70.23	71.09	24.04	24.49
April	112.42	115.35	16.40	16.71	11.0	11.1	71.29	72.42	24.73	26.23
May	113.26	114.81	16.48	16.51	10.7	11.2	71.65	72.33	25.13	25.98
June	113.61	113.94	16.43	16.00	10.8	10.5	71.97	72.36	25.21	25.58
July	114.32	114.32*	16.51	16.23*	11.0	10.5*	72.39	72.63*	25.42	25.46*
August	114.70	115.02	16.53	16 36	11.0	10.7	72.64	72.94	25.53	25.72
September	115.05	115.08	16.70	16.47	10.9	10.6	72.89	73.08	25.46	25.53
October	115.74	115.12	16.82	16.62	10.8	10.3	73.39	73.32	25.53	25.18
November	116.25	115.93	17.09	16.69	10.7	10.4	73.80	73.75	25.36	25.52
December	116.52	116.74	16.98	16.77	10.7	10.5	74.23	74.19	25.31	25.78
January 1986	117.22	116.95	17.15	16.90	10.7	10.4	74.60	74.48	25.47	25.57
February	117.69	117.01	17.24	17.03	10.6	10.1	74.93	74.82	25.52	25.16
March	118.15	117.34	17.39	17.15	10.6	10.0	75.26	75.16	25.50	25.03
April	118.83	117.79	17.49	17.21	10.6	10.0	75.68	75.43	25.66	25.15
May	119.28	117.92	17.60	17.27	10.5	9.8	76.08	75.76	25.60	24.89
June	119.54	118.42	17.44	17.31	10.5	9.9	76.48	76.04	25.62	25.07

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	1.849	1.849	1.060	1.060	1.676	1.635	316.2	341.0	189.5	205.2
February	1.631	1.647	1.123	1.135	1.636	1.624	320.6	334.3	192.3	201.1
March	1.895	1.889	1.149	1.168	1.814	1.741	326.5	333.7	195.5	200.9
April	1.938	1.933	1.178	1.155	1.793	1.704	329.4	338.3	196.7	202.9
May	1.973	1.673	1.203	1.041	1.818	1.778	336.2	343.5	199.9	205.7
June	1.957	1.705	1.192	1.027	1.778	1.713	342.7	343.5*	202.8	205.3*
July	1.959	1.800*	1.217	1.076*	1.783	1.676*	345.5	342.8	204.0	204.4
August	1.933	1.845	1.205	1.102	1.752	1.703	348.5	343.4	205.4	204.0
September	1.905	1.830	1.196	1.108	1.694	1.668	351.1	349.0	206.5	206.5
October	1.885	1.772	1.184	1.078	1.698	1.623	354.4	352.1	207.7	207.5
November	1.853	1.761	1.163	1.093	1.662	1.594	355.9	353.1	207.8	207.3
December	1.758	1.736	1.106	1.084	1.592	1.563	356.4	353.5	207.3	206.7
January 1986	1.723	1.678	1.082	1.052	1.564	1.508	355.0	353.4	205.9	205.9
February	1.721	1.662	1.093	1.037	1.585	1.524	353.6	353.2	204.6	205.2
March	1.691	1.657	1.083	1.043	1.526	1.482	352.2	352.8	203.5	204.5
April	1.656	1.623	1.064	1.026	1.448	1.461	351.9	352.7	202.7	204.0
May	1.608	1.574	1.045	0.998	1.392	1.409	352.1	353.5	202.2	204.0
June	1.553	1.563	1.021	0.992	1.377	1.422	352.4	352.9	201.8	203.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	130.5	128.4	57.3	57.4	128.5	155.3
February	131.7	130.4	56.4	57.8	132.5	146.0
March	133.9	128.4	57.8	59.1	134.8	146.2
April	135.2	134.5	58.7	59.3	135.5	144.5
May	136.8	135.7	59.9	61.0	139.5	146.8
June	138.3	135.0*	61.0	60.9*	143.4	147.6*
July	139.9	136.8	60.7	61.3	144.9	144.7
August	141.7	138.0	61.0	61.6	145.8	143.8
September	143.4	139.1	60.8	61.6	146.9	148.3
October	145.1	139.7	61.5	61.9	147.8	150.5
November	146.5	140.5	61.9	62.3	147.5	150.3
December	147.8	141.4	62.3	62.6	146.3	149.5
January 1986	149.0	142.8	62.0	62.3	144.0	148.3
February	150.0	143.5	61.8	62.7	141.8	147.0
March	151.1	144.3	61.9	63.1	139.2	145.4
April	152.2	145.0	62.1	63.4	137.6	144.3
May	153.1	145.8	62.4	63.8	136.6	143.9
June	153.9	146.5	62.8	64.1	135.7	142.3

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	284.7	285.8	104.99	105.45	23.14	23.63	25.64	25.25
February	285.7	286.1	103.69	102.47	29.50	29.49	26.31	26.33
March	286.3	286.2	104.63	99.54	27.42	27.21	26.82	27.77
April	286.9	286.0	105.92	99.73	27.59	25.41	27.03	27.26
May	288.1	285.0	106.38	103.03	27.68	25.64	27.26	26.98
June	290.0	284.8*	106.51	104.85	27.42	27.40	27.38	27.00
July	292.3	285.3	106.89	103.06*	28.13	26.86*	27.56	27.14*
August	293.2	286.0	106.27	103.74	28.24	27.42	27.78	27.31
September	293.6	386.9	105.42	105.33	28.02	27.81	28.01	27.53
October	294.9	288.0	104.28	104.82	27.43	27.62	28.23	27.65
November	296.5	289.2	106.07	103.67	27.92	27.08	28.36	27.73
December	297.5	290.3	107.46	104.42	28.26	27.32	28.45	27.79
January 1986	298.8	291.7	108.71	105.06	28.69	27.55	28.56	27.92
February	300.1	293.3	109.13	105.43	28.82	27.31	28.62	27.63
March	301.5	295.1	109.08	105.16	28.75	27.18	28.41	27.58
April	303.2	296.5	109.26	106.62	28.71	27.62	28.62	27.66
May	304.9	298.0	108.16	105.89	28.14	27.34	28.56	27.51
June	306.6	299.1	108.91	105.18	28.11	27.18	28.71	27.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	574.6	574.6	6.52	6.38	165.2	123.6	81.2	81.1
February	576.9	578.9	6.81	6.70	164.9	123.7	80.8	80.9
March	578.1	578.8	6.89	6.72	165.4	124.0	80.8	81.0
April	583.6	580.2	6.95	6.38	166.1	124.3	80.9	80.9
May	586.2	577.9	7.06	6.59	166.7	124.4	81.0	80.8
June	588.4	577.3*	7.18	7.07	167.3	124.6	81.1	80.7
July	591.4	579.6	7.29	6.97*	167.7	124.9*	81.0	80.7*
August	594.7	581.7	7.46	7.05	168.0	125.2	80.9	80.6
September	597.7	584.0	7.54	7.18	168.3	125.6	80.8	80.7
October	601.1	586.9	7.51	7.22	168.5	125.9	80.6	80.7
November	604.3	589.3	7.67	7.33	168.7	126.2	80.4	80.6
December	606.4	591.5	7.89	7.41	168.7	126.4	80.2	80.5
January 1986	610.2	594.6	7.95	7.56	168.7	126.7	80.0	80.4
February	612.3	597.9	8.03	7.68	168.9	127.0	79.9	80.4
March	614.7	601.6	8.10	7.81	169.4	127.3	79.9	80.3
April	617.9	604.8	8.23	7.85	170.3	127.5	80.1	80.2
May	621.3	608.5	8.34	7.98	171.5	127.6	80.4	80.0
June	626.1	611.5	8.46	8.07	172.6	127.6	80.7	79.8

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	316.6	316.6	292.4	292.1	323.2	323.1	228.23	228.25
February	317.7	317.7	292.1	292.1	322.5	322.2	228.96	228.96
March	319.0	319.2	292.7	292.7	322 6	322.6	229.84	230.00
April	320.2	320.4	293.7	293.6	324.0	323.8	230.53	230.23
May	321.1	321.1	294.3	294.2	325.4	325.3	231.42	230.60
June	322.1	321.8	295.1	294.2	326.5	325.2	232.13	231.12
July	322.9	322.4*	295.6	294.5*	326.7	325.3*	232.91	231.81
August	323.6	323.3	295.5	294.7	326.2	325.1	233.59	232.56
September	324.3	324.2	295.4	294.5	324.2	323.6	234.27	233.14
October	325.9	325.5	296.3	296.0	326.5	326.0	235.19	234.05
November	327.5	326.3	297.0	296.6	327.6	327.3	236.13	234.80
December	329.0	327.3	297.9	297.3	328.8	328.3	237.06	235.63
January 1986	330.3	328.5	298.9	298.0	329.6	329.1	237.89	236.57
February	331.5	329.9	299.8	298.8	330.2	330.0	238.65	237.53
March	332.8	331.0	300.8	299.5	330.9	330.7	239.40	238.42
April	334.4	332.3	301.9	300.2	332.4	332.0	240.21	239.29
May	336.0	333.6	303.0	300.9	333.9	333.4	241.07	240.21
June	337.5	334.9	304.1	301.8	335.3	334.9	241.87	241.10

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	224.0	224.0	178.1	178.1	220.0	220.0	244.2	244.2	166.9	166.2
February	224.5	224.6	179.4	179.6	219.9	219.7	245.1	245.3	166.7	166.2
March	225.1	225.3	179.8	179.5	220.1	220.5	245.4	246.0	167.0	165.2
April	225.8	225.6	180.2	179.2	220.8	221.1	246.5	246.6	166.5	166.7
May	226.5	226.3	180.2	178.5	221.4	221.3	247.7	248.3	168.2	167.0
June	227.3	226.9*	180.3	178.7*	222.0	221.2*	248.8	249.4*	169.0	167.3*
July	228.0	227.6	180.4	179.0	222.5	221.5	249.9	250.4	169.4	167.7
August	228.6	228.2	180.7	179.4	222.8	221.9	250.9	251.5	169.7	168.3
September	229.3	228.9	181.0	179.7	223.2	222.0	252.0	252.5	170.0	169.0
October	230.1	229.8	181.4	180.9	224.2	222.2	253.1	253.6	170.6	169.7
November	231.0	230.4	181.4	181.4	225.0	222.6	254.2	254.6	171.3	170.3
December	231.9	231.1	181.2	181.9	225.9	223.0	255.2	255.7	171.9	171.0
January 1986	232.8	232.0	181.6	182.3	226.5	223.7	256.4	256.8	172.4	171.6
February	233.7	233.0	182.2	182.6	227.3	224.5	257.6	257.8	172.8	172.1
March	234.6	233.8	182.7	182.8	228.0	225.3	258.9	258.9	173.1	172.5
April	235.4	234.7	183.0	183.1	228.6	226.0	260.0	260.0	173.6	172.9
May	236.2	235.6	183.2	183.4	229.3	226.7	261.1	261.2	174.1	173.3
June	237.1	236.5	183.4	183.8	230.0	227.5	262.2	262.3	174.6	173.5

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.